

# Foreignness: asset or liability?

**Dr William Newbury** explores the many factors involved when multinational companies expand into foreign settings, particularly in terms of the relationships between firms' global ambitions and local stakeholder perceptions

## **How did you come to be engaged in international business and management research?**

While I was raised in rural Missouri, my grandparents were both travel agents, which sparked my interest in foreign countries from an early age. I was fortunate to live in Japan for two years in high school and spent another year in Australia as a Rotary scholar. These experiences strengthened my interest in international business.

I was always interested in learning new things, and somehow had the idea of eventually becoming an academic. My first full-time job involved negotiating and administering government contracts, which required adherence to many rules. Over time, I increasingly felt my creativity was being stifled. This again reinforced my desire for an academic career. I've never regretted the decision to quit my job to pursue my PhD at New York University.

## **Your latest research focuses on how multinational corporations (MNCs) manage and relate to internal and external stakeholders in the local markets where they operate. What motivated this line of enquiry?**

This is a critical issue within international business and strategic management. Local stakeholder and/or subsidiary viewpoints are becoming increasingly important as firms compete to elicit supportive behaviours from key stakeholders, such as purchasing their products, investing in their stocks and seeking employment. My research aims to better understand the forces behind these behaviours and in turn help MNCs improve their management of international operations.

In all societies, and particularly in emerging and developing countries, there is a great deal of diversity across societal groups, making it important to consider different stakeholder views when entering foreign markets. For example, in a Latin America-focused study of local individuals, I found that, when controlling for other firm characteristics such as size and profitability, foreign firms were evaluated lower in terms of corporate reputation than domestic firms.



# Global reach

Researchers at **Florida International University** are examining how the embedding of multinational enterprises into foreign countries impacts local stakeholders. Their work aims to inform corporate executives and policy makers alike, and to help multinationals and countries successfully leverage benefits from foreign investment

## Why is this area of research particularly important in today's climate?

As a large portion of my work concerns emerging markets and their firms, the level of importance within today's business climate is very high. Emerging markets are the recipients of more than half of the world's foreign direct investment.

Emerging market multinational companies (EMNCs) are increasingly taking more prominent positions in the global economy. While many early prominent EMNCs were from China, now EMNCs from other parts of the world are becoming influential players. The high economic growth rates in emerging markets, compared to developed economies, suggest that they are becoming increasingly important as markets for products of developed country firms as well.

## In which direction are you planning to take your research next?

We are currently working on several studies focusing on corporate reputation and related constructs, particularly in emerging market contexts. We are also looking into industry-level differences in the evaluations of firms, and what industry characteristics drive stakeholder evaluations. Additionally, we hope to examine differences in reputation assessments by different local stakeholders such as customers, NGOs, environmental organizations, the media and so on.

In addition, I am working on a book with Seung Ho (Sam) Park and Alvaro Cuervo-Cazurra that examines many of the operational difficulties that emerging market firms experience when they invest in foreign markets. While much research has focused on the decision processes that firms go through in making foreign investments, limited attention has been devoted to the operational problems they face after these investments have been established.

## The Academy of International Business Latin America Chapter, of which you are currently President/Chapter Chair, recently held a conference on 'Internationalization of Family and Entrepreneurial Businesses in Latin America'? What was the goal of this conference and how do you envisage the chapter evolving in the future?

Family businesses constitute the vast majority of companies in Latin America. The conference aimed to promote the best and latest research findings and theoretical developments in the fields of internationalization, family business and entrepreneurship in Latin America, and especially the overlaps and intersections of these.

We have published two volumes of best papers from our conferences, with a third from our Santiago, Chile conference in development. In the future, we hope to continue to develop the quality of our conferences and its associated publications. For our 2016 conference in São Paulo, Brazil, we already have preliminary plans to increase participant interaction with real world firms by incorporating one or two company visits into the conference.

**WHEREAS FOREIGN DIRECT** investment (FDI) in developed countries is declining, in developing economies it is steadily increasing. In 2013, developed countries only attracted about 40 per cent of FDI global flows compared to 54 per cent that went to developing countries and transition economies (US \$778 billion). Moreover, the outflow of investment funds from developing countries in acquisitions of foreign assets has roughly trebled over the last decade, reaching \$53 billion in 2013. As the economies of the BRIC countries (Brazil, Russia, India and China) and other countries in Latin America, the Middle East and East Asia continue to advance rapidly, FDI originating from developing and emerging economies is projected to rise further still.

Dr William Newbury, Chair and SunTrust Bank Professor at Florida International University, is focusing on the forces at play in the relationships between multinational companies (MNCs) and their stakeholders abroad. At the moment, his research is mainly directed to MNCs from emerging markets (EMNCs), with a particular emphasis on those from Latin America, where approximately 90 per cent of businesses are family-owned. Many Latin American companies are SMEs but there are also vast enterprises such as telecoms company Telmex in Mexico and minerals producer Antofagasta in Chile, that mainly carry out business in the Latin American region. Others, like the Techint Group construction and engineering firm from Argentina and Mexico's building materials company Cemex, are known as multilatinas, having a presence across the world. For example, Techint employs 22,000 people worldwide and operates in North and South America, Europe, the Middle East and Africa.

## MANAGING PERCEPTIONS

Newbury's research covers a large range of topics concerning MNCs at individual, firm and country levels, from variations in local perceptions of them as employers to differences across countries between overseas stakeholders' assessments of them.

It is becoming increasingly important for MNCs in a foreign setting to know how to attract and retain high quality employees, and to understand what will augment their appeal to prospective customers and investors. Certainly, where MNC activities may be seen to be accountable for conflict or to have other negative consequences, the issue of the corporation's reputation is paramount.

How global aspects affect an MNC's stakeholders is a key area for Newbury. Indeed, more than 10 years ago, he tackled this topic in relation to MNC effects on the environment in Nigeria. From that study, it was evident that the local stakeholders experienced difficulty in adapting to global concerns. As a result, he considers that MNC managers need to understand how actively shaping their company's interactions with internal and external local stakeholders will help to engineer investment success: "Firms are often interacting between HQ and subsidiary markets with very different societal environments and expectations of them," he explains.

**Multinational company managers need to understand how actively shaping their company's interactions with internal and external local stakeholders will help to engineer investment success**



Exploring Kyoto, Japan, with Florida International University (FIU) doctoral students.



Gala Dinner attendees at the 2015 AIB-LAT Conference in Santiago, Chile.

In his work on corporate reputation, Newbury includes selected societal variables, such as local institutions and laws, the level of corporate governance and cultural norms, and assesses their impact on an MNC's relationships with the different stakeholder groups: "In a recent study with co-authors Abraham Soleimani and William Schaefer, we found that differences in societal-level shareholder, creditor and worker protection institutions influence the relationship between firm performance measures and reputations," he says.

Newbury has also found that corporate reputation has implications for human resource management approaches, and has recently evaluated the effects of societal perspectives on gender in 12 Latin American countries. In a study across five Latin American countries, the team found that there was a tendency for marginalized members of society – as a result of gender, educational attainment or level of income – to seek out employment by a foreign or international firm, rather than a local firm. "Our explanation is that marginalized individuals may be trying to escape a disadvantageous domestic work system. In a foreign company, policies may be more egalitarian," he comments. Newbury considers that understanding such factors may help MNCs to better position themselves to sources of human capital, for example by emphasizing firm social identity, while also assisting governments to develop policies to address the needs of marginalized groups.

Newbury and his colleagues have now developed a model for predicting MNC corporate reputation and stakeholder support, which they have empirically validated across five stakeholder groups in six countries.

#### VENTURING INTO THE KNOWN

A continuing thread in Newbury's research has been the factors that underlie success in international joint ventures (IJVs). His and Yoram Zeira's early analyses of how IJVs differ from single-owner foreign subsidiaries, international acquisitions and greenfield investments have been widely used in universities for teaching the differences between those arrangements. Newbury and Zeira showed how levels of corporate control and local management autonomy can affect venture processes and have a direct impact on the effectiveness of an IJV.

Later, together with Orly Yeheskel, they explored the moderating effects of variables such as venture age, size and industry on the relationship between local manager autonomy and IJV success. They then went on to examine the differences and similarities in factors that contribute to success in IJVs or international acquisitions, and to pinpoint how foreign parent company regional headquarter IJV evaluations of progress differ from those of the local IJV managers. Newbury and Zeira have

also analysed how variations between IJV parent companies can have positive or negative effects, which is important in the process of partner selection and decision making.

#### THE RISE OF NEW MULTINATIONALS

The Latin America Chapter of the Academy of International Business (AIB-LAT) was initially set up in 2009 as a discussion panel accompanying the Academy's annual conference. As the President of the AIB-LAT, Newbury is proud of its rapid development since then. The conference is now a three-day standalone event preceded by its own doctoral consortium.

The 2015 conference addressed the experiences and challenges of the mostly private, family-owned Latin American companies with subsidiaries and affiliates in foreign countries. Academic speakers included Lourdes Casanova of Cornell University, Mansour Javidan of the Najafi Global Mindset Institute, Belén Villalonga from New York University and José de la Torre from Florida International University. The leaders of the major multinationals Empresas Carozzi, Falabella, LATAM Airlines Group and SURA Asset Management formed a Plenary Panel of Chairmen and Chief Executive Officers, which was chaired by Jon Martinez from the University of the Andes in Colombia. Newbury has co-edited two volumes of best papers from the conference, the most recent including a selection of best papers from the 2014 conference in Medellin, which was published in spring 2015.

Newbury expects that emerging and developing markets will continue to be a hot topic for business and management research in the future, particularly in terms of how business norms and practices vary across the different markets and countries: "We need to better understand the actions of local stakeholders in these environments, where optimal organizational functioning may differ from that in developed countries," he asserts. Newbury anticipates that the focus for such research will extend from the current concentration on China and the four BRIC countries to encompass further countries in Latin America (other than Brazil and Mexico) as well as countries in the Middle East and Africa.



#### PROFESSOR WILLIAM NEWBURY

##### EXPERTISE

- Managing international subsidiaries and joint ventures
- Emerging market multinationals
- Stakeholder perception of global firms
- International environmental management

##### KEY COLLABORATORS

Dr Seung-Ho (Sam) Park, China Europe International Business School (CEIBS), China  
 Dr Charles J Fombrun, Reputation Institute, USA  
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#### PROFESSOR WILLIAM NEWBURY

has published over 30 articles in top-tier, peer-reviewed journals, including the *Journal of International Business Studies (JIBS)* and the *Journal of Management Studies (JMS)*, among others. He is the series editor for *Research in Global Strategic Management*. As well as serving on the editorial boards for *JIBS*, *JIM* and the *Global Strategy Journal*, he has held leadership roles in the Academy of International Business Latin America Chapter (AIB-LAT) and the Strategic Management Society Global Strategy Interest Group. Newbury completed his PhD in Management and International Business and MA in International Affairs at New York University, Leonard N Stern School of Business, USA, and Washington University, St Louis, USA, respectively.